FISCAL IMPACT STATEMENT

LS 7350
BILL NUMBER: HB 1002
NOTE PREPARED: Jan 18, 2017
BILL AMENDED:

SUBJECT: Transportation Infrastructure Funding.
FIRST AUTHOR: Rep. Soliday
FIRST SPONSOR:
BILL STATUS: As Introduced
IMPACT: State & Local
FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

Summary of Legislation: This bill has the following provisions:

(1) Provides for a one-time fuel tax rate increase using a multiyear index factor based on the last time the particular fuel tax rate was increased and the current fuel tax rate per gallon, but limits the one-time increase to $0.10 per gallon. (Gasoline tax is currently $0.18, special fuel tax is currently $0.16, and motor carrier surcharge tax is currently $0.11.)
(2) Provides for an annual rate increase in fuel tax rates based on an annual index factor.
(3) Increases alternative fuel decal fees by 50%.
(4) Establishes a $15 transportation infrastructure improvement fee that applies to all motor vehicle registrations.
(5) Requires a person who registers an electric vehicle to pay a supplemental registration fee of $150 with an increase every five years based on an index factor.
(6) Provides that the gasoline use tax is distributed to highway funds over a phase-in period.
(7) Repeals restrictions on when a tolling project can be undertaken and requires the Indiana Department of Transportation (INDOT) to seek a Federal Highway Administration waiver to toll interstate highways.
(8) Imposes other duties on INDOT.
(9) Amends the assessment procedures for motor carrier civil penalties under IC 9-20-18-14.5.
(10) Establishes the weigh-in-motion pilot program.
(11) Makes various changes to the Local Road and Bridge Matching Grant Program.
(12) Permits INDOT to approve certain railroad crossing projects, and authorizes the Indiana Finance Authority (IFA) to finance an approved project subject to a maximum annual debt service limit of $10,000,000.
(13) Annually appropriates $250,000 to INDOT for the Local Technical Assistance Program (LTAP) to
develop and maintain a centralized electronic statewide asset management data base. 
(14) Makes various changes to the transportation funding exchange program between the state and counties and municipalities.
(15) Adds various study requirements.

Effective Date: Upon passage; March 23, 2016 (retroactive); June 30, 2017; July 1, 2017.

Explanation of State Expenditures: Summary: The tolling feasibility study is expected to increase one-time Indiana Department of Transportation (INDOT) expenditures in FY 2017. The estimated costs for the required study could be between $200,000 and $700,000 and would come from the State Highway Fund.

The bill could also require DOR and the Bureau of Motor Vehicles (BMV) to revise computer software to reflect updated tax rates (DOR) and include new vehicle fees in the bill (BMV). To the extent these software changes increase agency expenditures the funds impacted would be the General Fund (DOR) and the BMV Commission Fund.

The bill could increase state expenditures in future years to finance the repayment of principal and interest on bonds or notes obtained by the IFA for railroad crossing projects.

Increasing the Local Road and Bridge Matching Grant Fund maximum grant could increase annual fund expenditures, depending on the decision of INDOT administrators.

Changes to the federal funds exchange program operated by INDOT could increase State Highway Fund expenditures. Actual expenditure increases would depend on how many local units of government and metropolitan planning organizations (MPOs) are approved for federal funding for road projects and the terms of an agreement reached with INDOT.

The bill also reauthorizes the FIRSST Task Force through the end of CY 2018, which is expected to increase General Fund expenditures between $10,000 and $16,500 per year in FY 2018 and FY 2019.

Additional Information:

Federal Exchange Rate: The bill increases the local match requirement for program participation from the current 10% to 20%, but also deletes the current exchange rate of $0.75 per $1 of federally approved funds. Increasing the local match requirement would decrease State Highway Fund expenditures to secure the same amount of federal funds from local units of government, but could also increase state expenditures depending on the exchange rates agreed upon between INDOT and local units of government. Additionally, the bill removes language from current law that requires INDOT to consider whether or not the agency has enough State Highway Funds available to spend the federal funds transferred from local units of government to the state (INDOT would still have to provide the 20% match required by the FHWA).

Bond Financing: The Indiana Finance Authority would be authorized to obtain bonds for railroad crossings until FY 2025. State expenditures could increase by a maximum of $10 M per year in future years to pay down the principal and interest on any bonds and notes secured during that time period for eligible projects. Actual expenditures will depend on the amount of financing secured by the IFA and interest rates on the
bonds or notes. Repayment of bonds or notes secured for railroad crossing projects could impact the State Highway Road Construction Improvement Fund.

State Highway Road Construction Improvement Fund: The bill expands potential uses of the State Highway Road Construction Improvement Fund to also include railroad crossing projects. This change could increase fund expenditures to the extent INDOT administrators elect to use these funds for railroad crossing projects. This fund receives the first $0.02 of taxes collected from gasoline and received approximately $62.2 M in revenue for FY 2016.

Local Road and Bridge Matching Grant Fund: The bill increases the maximum grant award to local units of government from 100% to 400% of the amount the local government commits to the project. Increasing the maximum grant amount per project could increase annual fund expenditures, depending on the decision of INDOT administrators.

Bureau of Motor Vehicles: The BMV would need to update computer systems to track the number of electric vehicles registered in the state for purposes of collecting the $150 electric vehicle fee. These costs would be paid from the BMV Commission Fund.

FIRSST Task Force: The bill extends the funding for the FIRSST Task Force to the end of CY 2018. The Task Force met five times during CY 2016 at a total cost of $10,000, but had an annual budget of $16,500. Depending on the number of meetings held by the Task Force, this provision is expected to increase General Fund expenditures by up to $16,500 per year for FY 2018 and FY 2019.

INDOT: Under the bill, INDOT would be charged with (1) applying for a federal waiver to toll portions of interstate, (2) studying transportation funding provided from a tax levied on vehicle miles traveled, (3) establishing state and local metrics to evaluate infrastructure needs, and (4) developing a state and local road and bridge prioritization system. Increases in workload are expected to be accomplished with increased State Highway Fund revenue, if not from existing resources and funding levels.

Additionally, by requiring an outside consulting firm to perform a tolling feasibility study, this bill could increase INDOT expenditures in FY 2017. The state of Wisconsin recently published a tolling feasibility study (December 2016) that was performed by a third-party vendor. The reported costs for this study were $700,000. INDOT reports the cost of a tolling feasibility study could be between $200,000 and $500,000. Increases in INDOT expenditures for a tolling feasibility study would come from the State Highway Fund.

DOR: Requiring annual indexing of gasoline, special fuel, and motor carrier surcharge tax rates is expected to increase the workload of the Department of Revenue (DOR). Increases in workload are within the routine administrative function of the agency and are expected to be accomplished with existing resource and funding levels. The DOR could also need to revise computer software for the changes made to sales and use tax and the gasoline tax.

The bill also requires the DOR to study (1) collection of taxes comparable to the motor carrier surcharge and (2) gross retail tax collections on special fuel, by September 1, 2017. Increases in workload are expected to be accomplished with existing resource and funding levels.

LTAP: The bill annually appropriates $250,000 of MVHA funds to INDOT for LTAP. As a result, the State Highway Fund would receive approximately $133,000 less revenue from the MVHA and local units of government would receive approximately $117,000 less in local MVHA revenue per year.
**Weigh-In-Motion Pilot Program:** The Indiana Department of Transportation reports that currently there are no estimated state costs to operate the Weigh-In-Motion Pilot Program established in the bill. The pilot program is expected to be provided by a third-party vendor, with INDOT, the Indiana State Police (ISP), and the Department of State Revenue providing minimal staffing support. Any increases in workload are expected to be accomplished under current funding and resource levels.

**State and Local Bridge Prioritization and Condition Metrics:** Requiring INDOT to institute the prioritization and condition metrics, including the appointment of two economic professionals and engineers, is expected to be accomplished with existing resources and funding levels.

**Explanation of State Revenues:** (Revised) **Summary:** This bill is expected to have the following impacts to the General Fund, State Highway Fund, Local Road and Bridge Matching Grant Fund, and the Motor Carrier Regulation Fund between FY 2018 and FY 2021.

<table>
<thead>
<tr>
<th>Fund</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$0.0 M</td>
<td>($165.9 M)</td>
<td>($257.8 M)</td>
<td>($360.7 M)</td>
</tr>
<tr>
<td>State Highway Fund</td>
<td>$293.3 M</td>
<td>$485.8 M</td>
<td>$603.0 M</td>
<td>$729.8 M</td>
</tr>
<tr>
<td>Local Road and Bridge Matching Grant Fund</td>
<td>$46.3M</td>
<td>$93.0 M</td>
<td>$93.5 M</td>
<td>$94.2 M</td>
</tr>
<tr>
<td>Motor Carrier Regulation Fund</td>
<td>$8.3 M</td>
<td>$9.0 M</td>
<td>$9.7 M</td>
<td>$10.4 M</td>
</tr>
<tr>
<td><strong>Net Impact</strong></td>
<td>$347.9 M</td>
<td>$421.8 M</td>
<td>$448.4 M</td>
<td>$473.7 M</td>
</tr>
</tbody>
</table>

These impacts are the result of (1) changing the distribution of the sales tax collected on gasoline, (2) increasing the gasoline tax, (3) increasing the special fuel tax, (4) increasing the motor carrier surcharge tax, and (5) instituting an electric vehicle fee of $150.

**Additional Information:**

(Revised) **Gasoline Use Tax Distribution:** The bill takes distributions that otherwise would have been deposited in the General Fund and instead diverts these funds to the State Highway Fund beginning in FY 2019. The fund impacts from these distribution changes are included in the following table.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund</th>
<th>State Highway Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2019</td>
<td>($165.9 M)</td>
<td>$165.9 M</td>
</tr>
<tr>
<td>2020</td>
<td>($257.8 M)</td>
<td>$257.8 M</td>
</tr>
<tr>
<td>2021</td>
<td>($361.7 M)</td>
<td>$361.7 M</td>
</tr>
</tbody>
</table>

**Tax Increases:** The tax rates for the gasoline, special fuel, and motor carrier surcharge tax would increase by the lesser of (1) the rate adjustment included in the bill or (2) an additional $0.10 per gallon, in FY 2018.
The tax rate increase in FY 2018 is expected to be the latter. Annually thereafter, the DOR is required to calculate the rate adjustment and apply it to each tax rate. This annual adjustment is expected to increase revenue for each tax annually between FY 2019 and FY 2021. Revenue could decrease in future years if the annual consumer price index and individual personal income index decline.

The following table shows the estimated annual new revenue from changes to the gasoline, special fuel, and motor carrier surcharge tax rates.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Gasoline Tax</th>
<th>Special Fuels Tax</th>
<th>Motor Carrier Surcharge</th>
<th>New Annual Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$310.3 M</td>
<td>$118.8 M</td>
<td>$91.8 M</td>
<td>$520.9 M</td>
</tr>
<tr>
<td>2019</td>
<td>$336.1 M</td>
<td>$131.8 M</td>
<td>$100.0 M</td>
<td>$567.9 M</td>
</tr>
<tr>
<td>2020</td>
<td>$360.2 M</td>
<td>$144.8 M</td>
<td>$107.9 M</td>
<td>$612.9 M</td>
</tr>
<tr>
<td>2021</td>
<td>$382.5 M</td>
<td>$157.5 M</td>
<td>$115.4 M</td>
<td>$655.4 M</td>
</tr>
</tbody>
</table>

The new tax revenue collected on gasoline and special fuels between FY 2018 and FY 2021 would be distributed as follows: 53.5% to the State Highway Fund and 46.5% to local units of government. The revenue collected from the increase in the Motor Carrier Surcharge tax would be distributed as follows: 9% would be deposited in the Motor Carrier Regulation Fund, 69.62% to the State Highway Fund, and 21.38% to local units of government.

**Toll Road Revenue:** If INDOT successfully petitions the federal government for authorization to toll portions of interstates, state revenue could further increase from sections of the interstate where tolls are assessed. The bill also removes current statute requiring approval from the General Assembly to toll certain portions of interstates. To the extent the federal government approves tolling in the state and depending on how tolling is performed, the state could receive additional revenue in future years. Increases in revenue are currently indeterminable.

**Transportation Infrastructure Improvement Fee:** The bill establishes a $15 fee on all motor vehicles registered in the state, including vehicles registered under the International Registration Plan (IRP) beginning in CY 2018. Annually, there are approximately 5.7 million vehicles registered with the BMV and 365,000 registered with the DOR through IRP.

This bill is expected to generate approximately $91.0 M in annual revenue for the Local Road and Bridge Matching Grant Fund, with half of this revenue ($45.5 M) being received in FY 2018 and the first full year of revenue collections occurring in FY 2019.

**Electric Vehicle Fees:** The bill creates a new $150 fee for electric vehicles between CY 2018 and CY 2022. Beginning in CY 2023 and every fifth year thereafter, this fee would be adjusted based on the average of the consumer price index and individual personal income. Revenue from this fee is to be deposited in the Local Road and Bridge Matching Grant Fund. Because the new electric vehicle fee takes effect half way through FY 2018, the first full year of revenue from the electric vehicle fee will be realized in FY 2019.

The following table shows the expected number of electric vehicle registrations between FY 2018 and FY 2021 as well as expected revenue from the fee.
## Alternative Fuel Decal Fee Increase

The bill increases the fees collected by the DOR on alternative fuel decals. Based on information provided by the DOR for FY 2017, an estimated 400 alternative fuel decals are expected to be sold annually. Under the new fee amounts, this bill is expected to increase alternative fuel decal fee revenue by $46,500 each year, which would be distributed in the same manner as revenue collected from special fuel: 53.5% to the State Highway Fund, 35.25% to local units of government through the Motor Vehicle Highway Account distribution formula, and 11.25% to the Local Road and Street Account.

The DOR reports that some alternative fuel vehicle owners may be unaware of the requirement to obtain an alternative fuel decal and assume that obtaining a vehicle registration from the BMV suffices in paying all necessary registration fees and taxes. As a result, actual alternative fuel decals purchased through the DOR fluctuates annually.

### Explanation of Local Expenditures

Increases in road funding provided to local units of government through the changes in the federal fund exchange program could increase local expenditures on road construction.

Additionally, increasing revenue available to the Local Road and Bridge Matching Grant Fund could increase awards made by INDOT annually. To the extent additional local units of government are approved for grants from the fund, local expenditures would increase to meet the match requirement under current law.

### Explanation of Local Revenues

**Summary:** This bill could increase local road funding (1) by allowing additional municipalities to institute excise surtax and wheel tax rates and (2) changes made to the federal fund exchange program.

The bill also increases local MVHA and Local Road and Street Account revenue from (1) changes made to distributions of sales tax revenue collected on gasoline, (2) increasing the gasoline and special fuel tax rates, and (3) increasing motor carrier surcharge tax.

The following table shows estimated total local revenue that could be received between FY 2018 and FY 2021.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Local MVHA</th>
<th>Local Road and Street Account</th>
<th>Municipal Wheel and Surtax</th>
<th>Annual Local Revenue Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$170.8 M</td>
<td>$48.3 M</td>
<td>$4.5 M</td>
<td>$223.6 M</td>
</tr>
<tr>
<td>2019</td>
<td>$186.2 M</td>
<td>$52.6 M</td>
<td>$9.0 M</td>
<td>$247.8 M</td>
</tr>
<tr>
<td>2020</td>
<td>$201.0 M</td>
<td>$56.8 M</td>
<td>$9.0 M</td>
<td>$266.8 M</td>
</tr>
<tr>
<td>2021</td>
<td>$214.9 M</td>
<td>$60.8 M</td>
<td>$9.0 M</td>
<td>$284.7 M</td>
</tr>
</tbody>
</table>
**Additional Information:** Local MVHA revenue is distributed to local units as follows: 31.9% to cities and towns, 3.4% equally to all counties, 20.4% to counties based on vehicle registrations as a percent of all registrations in the state, and 44.3% to counties based on county mileage. Distributions from the Local Road and Street Account vary depending on county size, as well as county and local unit population and road mileage.

**Federal Fund Exchange:** This bill will increase the local share requirement for participation in the transportation funding exchange program, which could increase local road project costs. The bill also removes the conversion rate of $0.75 of state funds for $1 of federal funds. These changes could (1) increase local costs to participate in the federal fund exchange program and also (2) increase local revenue received from the state to the extent the conversion rate is higher. The bill’s impact on local road project costs would depend on the decision of local units of government and metropolitan planning organizations (MPOs) to participate in the program given the new cost-sharing requirement.

**Local Road and Bridge Matching Grant Fund:** The bill makes the following changes to the Local Road and Bridge Matching Grant Fund; (1) increases revenue deposited in the fund annually, (2) decreases amounts set aside for counties with populations less than 50,000 residents, and (3) increases the maximum grant award made to local grant applicants. These changes could impact grants awarded to local units of government by INDOT. Changes in local revenue are unknown but would be subject to INDOT approval.

**Municipal Surtax and Wheel Tax:** There are 40 municipalities with a population between 5,000 and 10,000. If each of these municipalities adopt the municipal surtax and wheel tax at maximum tax rates, municipal revenues could increase by as much as $9 M beginning in CY 2018. Municipal surtax and wheel tax revenue may be used only for road and street construction and maintenance or matching funds to obtain a grant from the Local Road and Bridge Matching Grant Fund. Wheel tax revenue may also be contributed to a multicounty infrastructure authority.

This provision would permit municipalities to impose their own surtax and wheel tax. An adopting municipality must adopt both taxes simultaneously. The surtax would be charged as a flat rate of between $7.50 and $25.00 on each vehicle registered in the municipality that is subject to the excise tax. The wheel tax would be assessed at a flat rate of between $5.00 and $40.00 on each vehicle registered in the municipality that is not subject to the excise tax.

**State Agencies Affected:** INDOT, DOR, BMV.

**Local Agencies Affected:** All.

**Information Sources:** Energy Information Administration Annual Energy Outlook 2016; INDOT; Cambridge Systematics report to the Interim Committee on Roads and Transportation; Tax and Revenue Handbook, State Revenue Forecast, December 15, 2016; Wisconsin Department of Transportation; Bob Alderman, INDOT.

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